



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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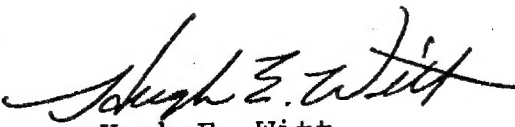
OMB
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TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

Subject: Request for Comments on Draft of
Major System Acquisitions Circular

Attached is a copy of a draft circular on major system acquisitions for your review and comments. This is the result of informal comments on the previous drafts, the recent hearings of Senator Chiles' Subcommittee on Federal Spending Practices, Efficiency and Open Government, and deliberations within the Office of Federal Procurement Policy (OFPP). The circular is based on findings and conclusions growing out of executive branch consideration of the recommendations of the Commission on Government Procurement.

We would appreciate a response prior to close of business, Friday, October 31, 1975, so that we may incorporate appropriate revisions.


Hugh E. Witt
Administrator for
Federal Procurement Policy

Attachment



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

CIRCULAR NO. A-

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Major System Acquisitions

1. Purpose. This Circular establishes policy to be followed in the acquisition of major systems from federally appropriated funds.

2. Authority. The "Office of Federal Procurement Policy Act," Public Law 93-400, 41 U.S.C. 401 et seq, the Budget and Accounting Act, 1921, the Budget and Accounting Procedures Act of 1950, Reorganization Plan No. 2 of 1970, and Executive Order 11541, July 1, 1970.

3. Background. The acquisition of major systems by the Federal Government constitutes one of the most important, vital, and expensive activities performed in the Nation. Its impact on the accomplishment of Government agency missions in such areas as defense, space, energy, and transportation, and on technology and the Nation's economy is critical. For a number of years, concern has been expressed by private citizens, Members of Congress, and representatives of industry regarding the effectiveness of the management of major system acquisitions. The report of the Commission on Government Procurement recommended fundamental changes in the process of acquiring major systems. This Circular is based on findings and conclusions growing out of executive branch consideration of the Commission's recommendations.

4. Responsibility. Each agency head shall insure that the policy provisions of this Circular are followed.

5. Application. This Circular applies to the management of the acquisition of major systems including: analysis of the agency mission, determination of mission needs and the setting of mission goals, system acquisition planning, programming, budgeting, funding, research, engineering, development, testing and evaluation, contracting,

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production, program control, and introduction of the system into use. The Circular is applicable to such acquisition programs even though some agencies may not have full responsibility for each of these functions. For instance, an agency may not procure systems for its own use but instead may create optional demonstration hardware for private sector choice, or may procure one-of-a-kind systems. Such variations do not justify the exclusion of programs from the management concepts of this Circular.

6. Definitions. As used in this Circular:

a. "Agency head" means the head or deputy head of an executive agency.

b. "Executive agency" means an executive department or an independent establishment within the meaning of sections 101 and 104(1), respectively, of Title 5, United States Code.

c. "Agency component" means a major organizational subdivision of an executive agency. For example, the Army, Navy, Air Force, and Defense Supply Agency are agency components of DOD; the Federal Aviation Administration, Urban Mass Transportation Administration, and the Federal Highway Administration are agency components of DOT.

d. "Mission need" means within an agency's overall purpose a desired capability, including cost and schedule considerations, expressed in mission terms, not equipment terms. A mission need may be the result of an identified deficiency or the result of a technologically feasible opportunity.

e. "Major system" means equipment, construction or other improvements of real property, and related programs involving the acquisition process which meet an agency mission need of sufficient importance to warrant the allocation of large dollar resources or special management attention. Dollar thresholds and other criteria for the determination of agency programs to be considered major systems under the purview of this Circular shall be at the discretion of the agency head.

f. "Acquisition process" means the sequence of activities starting with reconciliation of mission needs and goals with capabilities, priorities and resources, and

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extending through the introduction of a system into operational use or the otherwise successful achievement of program objectives.

7. General policy. The guidelines of this Circular are designed to work as an integrated whole toward the improvement of the effectiveness and efficiency of the major system acquisitions process. They are based on the general policy that Federal agencies when acquiring major systems shall:

a. Establish needs and goals based on broad agency mission definition.

b. Perform planning, programming, and budgeting built on analysis of needs, goals and missions which implies: better resource allocation resulting both from improved agency articulation of missions and goals, and from improved communication with Congress in accord with the Congressional Budget Act of 1974, Public Law 93-344 (31 U.S.C. 1301).

c. Create and explore alternative system solutions within the broad agency "mission" context -- with emphasis upon generating increased innovation, participation, and conceptual competition from industry as opposed to undue reliance upon agency internally developed concepts and/or preliminary designs.

d. Increase levels of agency early R&D funding for exploration of alternatives as relatively inexpensive insurance against the possibility that a premature or preordained choice may later prove to be either a less effective or a more costly means of fulfilling a mission need.

e. Focus competition more meaningfully on alternative design concepts as opposed to confining competition to price or performance differentiation within a single design concept.

f. Choose a final system from among alternative systems that are honed by a competitive development environment.

g. Manage systematically the entire requirements determination/development/production process.

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h. Provide appropriate managerial level for decision-making and an improved management hierarchy of authority, responsibility and accountability.

i. Provide strong checks and balances for systems destined for production through a test and evaluation organization independent of developer and user.

8. Management objectives.

a. A major system acquired by the Government must fulfill a mission need, be affordable, operate effectively in its intended environment, and demonstrate a performance level and reliability that justify the allocation of resources to its acquisition, ownership, and support. Efforts shall be made to minimize life cycle costs by including the appropriate use of technology, means to promote competition, and incentives to achieve reliability of the system in its operating environment.

b. An "acquisition strategy" must be tailored for each individual system program as soon as a determination is made to solicit design concepts which could lead to the acquisition of a new major system. Such strategy should include test and evaluation criteria and business management considerations such as: the timing of essential elements of the acquisition process, the content of proposal solicitations, whom to solicit, methods for obtaining and sustaining competition, data rights, use of warranties, need for developing contractor incentives, and selection of contract types. The contracting process should be recognized as an important tool in system acquisitions.

9. Management structure.

a. Each agency that acquires major systems, or is responsible for the activities leading to the acquisition of major systems, shall have an acquisition executive, designated by the head of the agency, who shall be responsible for the agency's integrated acquisition management process and for monitoring policy implementation and practice under this Circular. There shall be clear channels of delegation of responsibility and authority within the agency's acquisition management process. Technical and program decisions normally should be made at the operating activity or component level with clear channels of accountability within the agency. However, the

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following key approval decisions should be retained by the agency head:

(1) Mission need and the goals that an acquisition program is to achieve.

(2) Selection of competitive candidate systems for demonstration, or noncompetitive (single concept) system development.

(3) Full-scale system development and limited production.

(4) Full production release.

b. Major system acquisition programs shall be managed by a program manager, who should be designated when a decision is made to fulfill a mission objective by pursuing design concept alternatives and who, with satisfactory performance, should be retained for a sufficient period to provide reasonable continuity and personal accountability. Program managers should have an understanding of user needs and constraints, familiarity with development principles, and program management skills and experience in the following functional areas where applicable: research and development, operations, engineering, construction, testing, contracting, prototyping and fabrication of complex systems, production, finance, and business. A program manager shall have a written charter which provides authority to accomplish recognized program objectives.

c. Each agency shall rely, to the greatest extent possible, on competitively derived concepts and designs, and shall insure that management layering, staff reviews, reporting procedures and paperwork requirements placed on program managers and contractors are minimized.

d. Each agency shall develop the capability to predict, review and control costs for system development, engineering, design, test, production, and operation and support (i.e., life cycle costs). Costs, schedules and performance shall be tracked against predictions and examined by the agency head at key decision points, and new cost/schedule/benefit analyses shall be performed where significant cost, schedule or performance variances occur. Life cycle cost techniques shall be employed during concept evaluation and selection, full-scale development, facility

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conversion, and production, to insure identification and achievement of the lowest lifetime costs in consonance with the capability being acquired.

e. Joint interagency working groups should be established where appropriate as a means to advance technology and reduce system costs, promote standardization and enhance the development of a competitive acquisition environment.

10. Mission needs and goals.

a. Initiation of all major system acquisition programs should be based on an analysis of an agency's mission and a determination of needs and goals reconciled with overall capabilities, priorities and resources. If analysis of an agency's mission shows that a need for a major system exists, such a need should be defined in terms of the mission objective, agency components involved, capability, schedule and cost goals, and operating constraints. Benefits to be derived should be optimized by competitive exploration of alternatives and trade-offs of capability goals, time, and cost. Care should be exercised during the initial steps of the acquisition process not to distort needs and goals by forcing their conformance to any known or offered systems or products that might foreclose consideration of alternative design concepts or alternative approaches under a single design concept.

b. Agencies having more than one component may compete the concepts and developments traditionally assigned to each in order to consider innovative approaches and select the most technically suitable and most cost effective approach to fulfilling a mission deficiency.

c. Each agency shall maintain a strong technology base by conducting, supporting, or sponsoring basic research, applied research, system concept studies, proof of concept work, exploratory subsystem development, and tests and evaluations in both the private sector and Government in-house technical centers relevant to the agency's assigned responsibilities.

11. Alternative systems.

a. System concept design alternatives shall be solicited from all competent qualified sources in order to

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achieve the optimum system through encouraging innovation and competition. Conceptual designs are to be primarily solicited from private industry, including smaller businesses. Federal laboratories, federally funded research and development centers, educational institutions, and other not-for-profit organizations may also be considered as sources for conceptual system designs.

b. Ideas, concepts, or technology, developed by Government laboratories or at Government expense for which Government rights have been established, may be made available to private industry through the procurement process. Industry proposals to the agency may be made on the basis of these ideas, concepts, or technology or on the basis of alternatives which industry considers superior. Requests for system concept design proposals shall contain explanations of the mission need, time, cost, and capability goals, and operating constraints. Each offerer shall be free to propose his own technical approach, main design features, subsystems, and alternatives to time, cost, and capability goals. In the conceptual and less than full-scale development stages, the contractors should not be restricted by a wide spectrum of detailed Government specifications and standards. Selections from competing proposals shall be based on a review by a team of experts from inside and outside the agency component development organization. Such a review shall consider proposed system functional and performance capabilities to meet mission needs, resources required, and benefits to be derived by trade-offs of technical performance, acquisition costs, ownership costs, time to develop and procure and the accomplishment record of competitors.

c. During the uncertain period of identifying and exploring alternative system concepts, contracts covering relatively short time periods at planned dollar levels shall be used. A timely technical review of alternative concepts will be made to effect the orderly elimination of those least attractive.

d. Programs shall be structured and resources allocated to insure demonstration and evaluation of competing alternative concepts to mission accomplishments wherever economically feasible, including competition between similar or differing concepts throughout the entire acquisition process. Contractors shall be provided with operational test conditions, mission performance criteria, and lifetime

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ownership cost factors that will be used by the agency in the evaluation and selection of the system(s) for full-scale development and production.

e. Appropriate interaction between agency representatives with relevant operational experience and participating contractors should be encouraged as necessary in developing performance and other requirements for each system alternative as tests and trade-offs are made.

f. Development of subsystems which are intended to be included in a major system acquisition program shall be restricted to less than fully designed hardware (full-scale development) until the subsystem is identified as a part of a system candidate for full-scale development. Exceptions may be authorized by the agency head if the subsystems are long lead time items fulfilling a recognized generic need or if they have a high potential for common use among several existing or future systems.

g. Approval for development of a noncompetitively selected major system design concept should be considered only if justified by factors typified by either extreme urgency of need with only one viable approach, or physical and financial impracticality of demonstrating alternatives.

12. Full-scale development and production.

a. Full-scale development, including limited production, shall not be approved until agency mission needs and goals are reaffirmed and competitive demonstration results prove that the chosen technical approach is sound.

b. Full production shall not be approved until agency mission needs and goals are reaffirmed. In addition full production shall not be approved until system performance has been satisfactorily tested independent of the agency development and user organizations, and evaluated in an environment that assures demonstration in expected operational conditions. Exceptions to the independent testing portions of this policy may be authorized by the agency head if a cost benefit analysis shows that release of a system to production is clearly justified.

c. Selection of a system and system contractors for full-scale development and production should be made on the basis of: (1) system performance measured against current

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mission needs; (2) an evaluation of estimated costs of system development, production, operation, and support; (3) program schedule; and (4) the contractor's proven management, financial, and technical capabilities as related to the requirements of the contract.

d. System tests and contractor performance relative to meeting system performance, cost, and schedule commitments shall be monitored by the program manager. Significant actual or forecast variances shall be brought to the attention of the appropriate management authority for corrective action. The acquisition executive shall be informed of such variances and corrective actions.

13. Budgeting and financing. The agency's research and development budget should reflect an appropriate balance between the general technology base in support of the agency's overall mission and the technology in support of specific mission areas. Agencies shall insure that the research and development budget is developed and allocated in consonance with mission area needs and goals. Each agency should insure that research and development is not undesirably duplicated across its mission areas.

14. Information to Congress.

a. Agencies shall develop procedures, in conjunction with the Office of Management and Budget and the various committees of Congress having oversight responsibility for agency functional responsibilities, to inform Congress in the normal budget process about agency missions, capabilities, deficiencies and needs and goals related to new acquisition programs in consonance with Section 601(i) of the Congressional Budget Act of 1974, Public Law No. 93-344.

b. Disclosure of the basis for noncompetitive and undemonstrated system concept selections shall also be made to the appropriate congressional committees in the normal budget process.

15. Implementation. Agency guidelines or policy directives implementing this Circular shall be furnished the Administrator for Federal Procurement Policy (OMB) for review. Within six months after the date of release of the Circular, each agency shall develop and submit to the Administrator for Federal Procurement Policy (OMB) a time-

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phased plan for meeting the requirements of this Circular. During this period, the agencies shall work with the Administrator to resolve implementation problems.

JAMES T. LYNN
DIRECTOR

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